

MEMORANDUM



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 Author **Division for Bank Analysis**

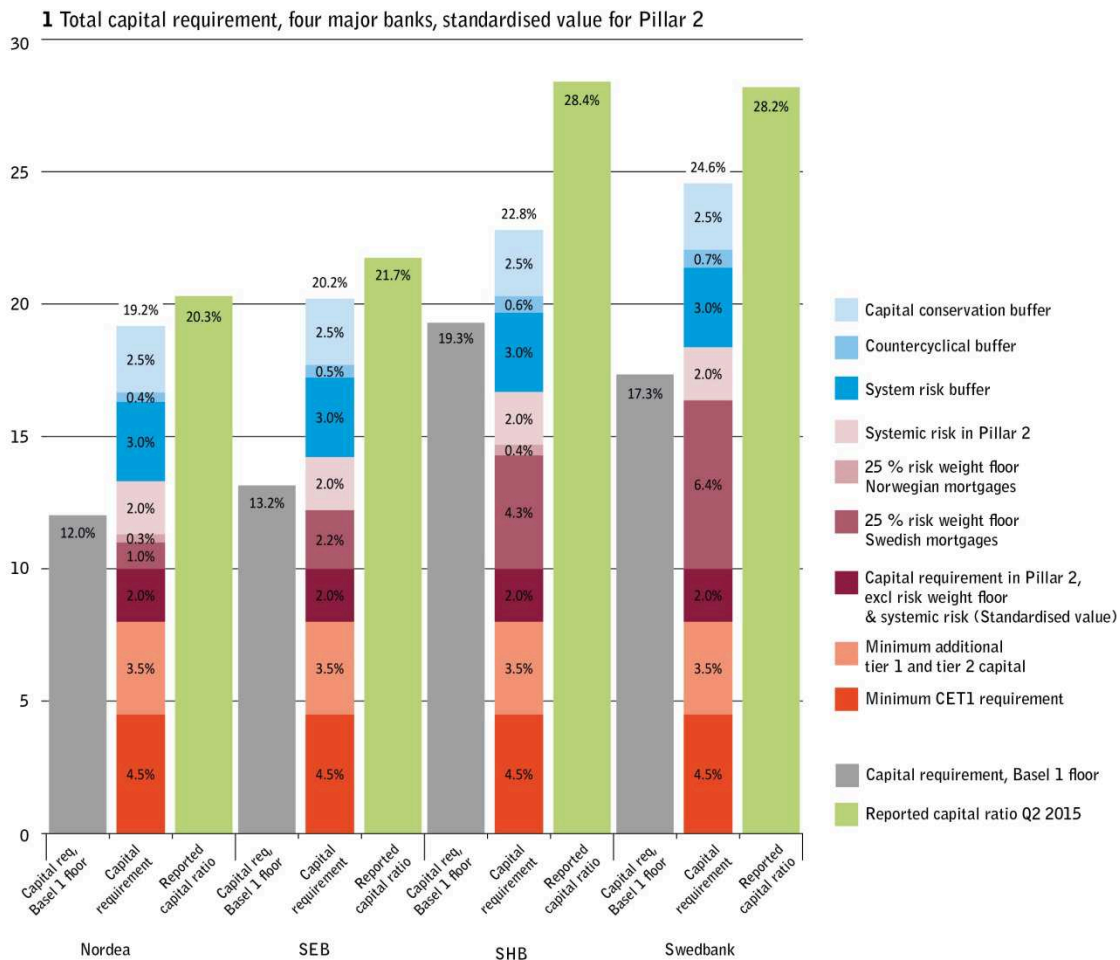
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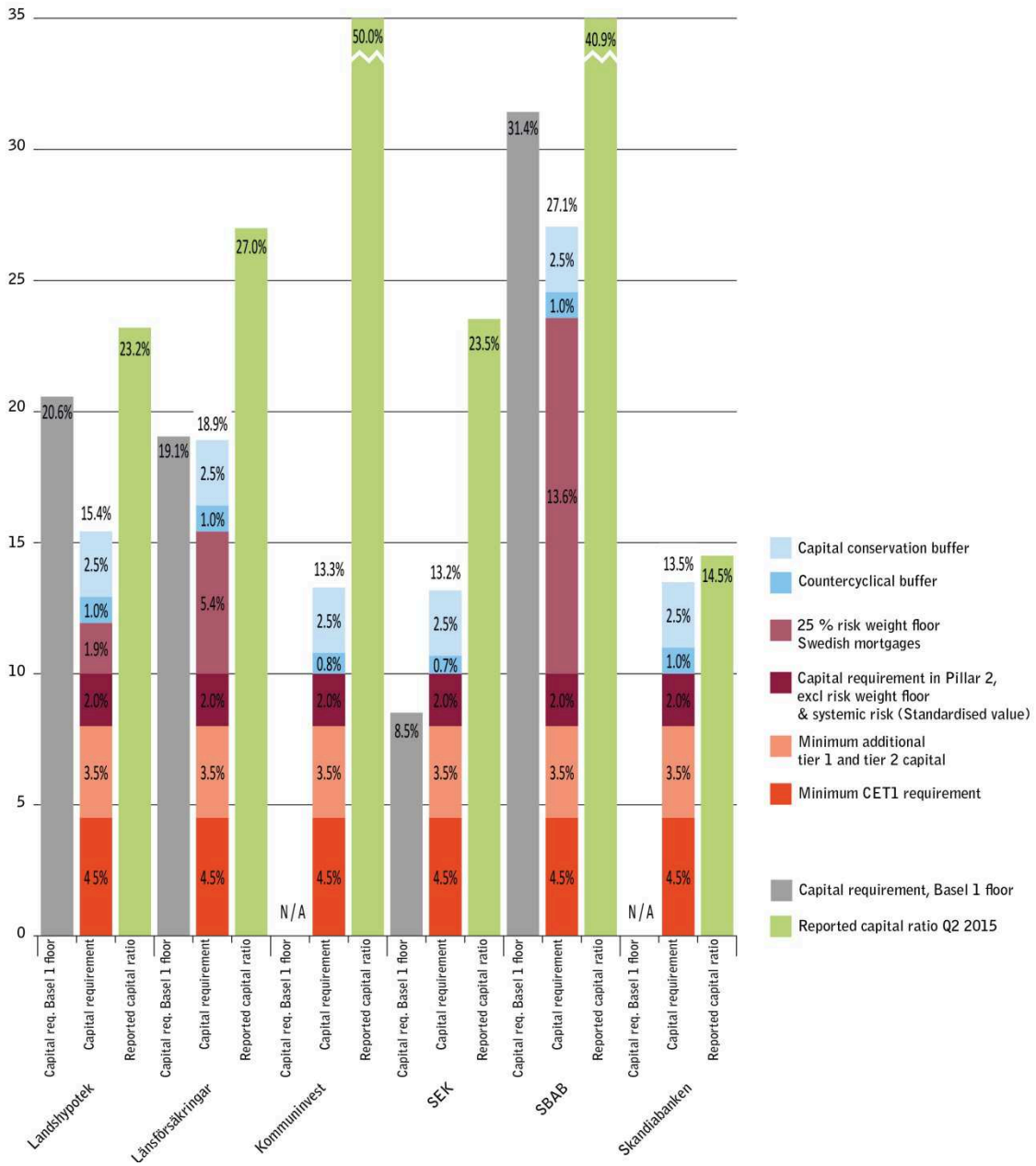
Capital requirements of the Swedish banks, second quarter 2015

Summary

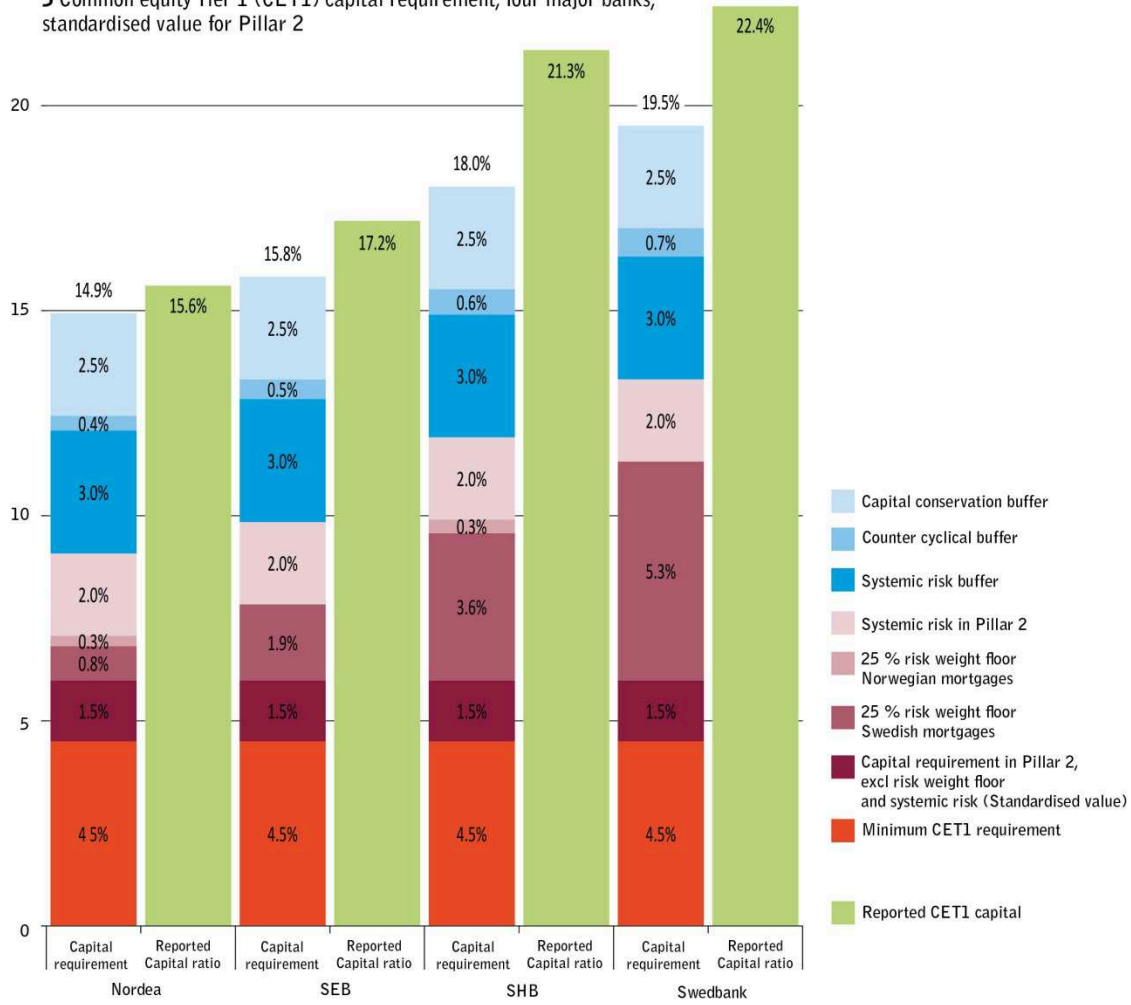
Finansinspektionen publishes on a quarterly basis the capital needs of the ten largest Swedish banks and credit institutions. This memorandum discloses these firms' capital requirements and capital ratios as of the end of the second quarter 2015.



2 Total capital requirement, other six firms, standardised value for Pillar 2



3 Common equity Tier 1 (CET1) capital requirement, four major banks, standardised value for Pillar 2



4 Common equity Tier 1 (CET1) capital requirement, other six firms, standardised value for Pillar 2

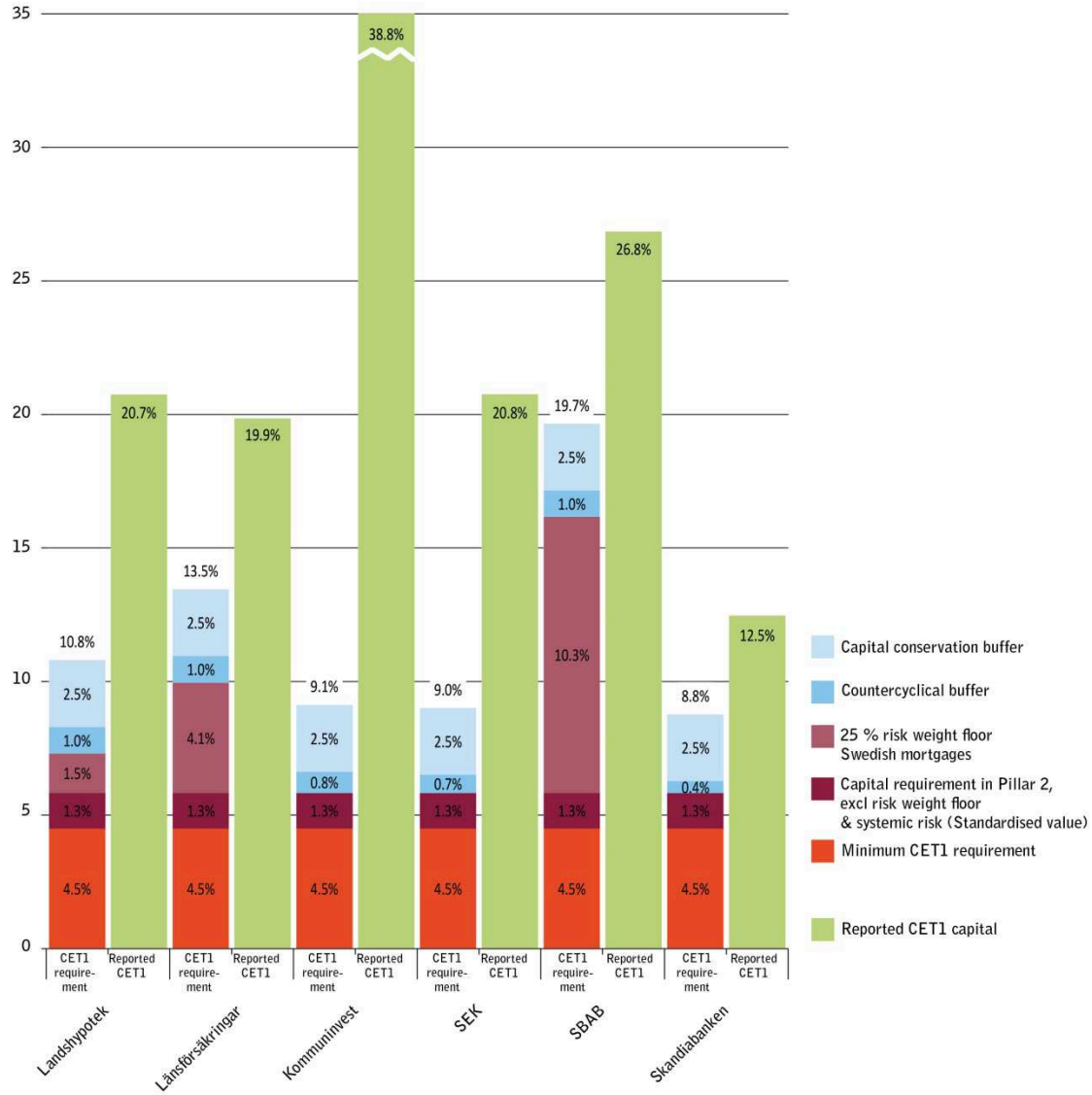


Table 1 Components of the 10 largest firms' combined total capital need (mnSEK)

	Nordea	SEB	SHB	Swed- bank	SBAB	SEK	Länsför- säkringar	Skandia	Lands- hypotek	Kommun- invest	Total
Minimum requirement pillar 1 (8 %)	110 407	49 125	38 491	32 540	3 133	5 996	3 920	3 542	1 630	500	249 285
Capital conservation buffer (2.5 %)	34 502	15 352	12 028	10 169	979	1 874	1 225	1 107	509	156	77 902
Pillar 2, excl. risk weight floor & systemic risk (2 %)	27 602	12 281	9 623	8 135	783	1 499	980	886	407	125	62 321
Risk weight floor mortgages Sweden (25 %)	13 769	13 629	20 634	25 911	5 313	-	2 654	-	394	-	82 305
Risk weight floor mortgages Norway (25 %)	4 258	9	1 894	4	-	-	-	-	-	-	6 165
Countercyclical buffer Sweden (1.0 %)	4 978	2 968	2 959	2 787	389	513	490	442	204	49	15 777
Systemic risk pillar 2 (2 %)	27 602	12 281	9 623	8 135	-	-	-	-	-	-	57 641
Systemic risk buffer (3 %)	41 403	18 422	14 434	12 203	-	-	-	-	-	-	86 461
Surplus capital requirement, Basel 1 floor	-	-	-	-	1 710	-	66	-	1 047	-	2 823
Total capital requirement	264 520	124 068	109 685	99 883	12 307	9 882	9 335	5 977	4 191	831	640 680
Capital requirement, Basel 1 floor	165 955	80 753	92 799	70 531	12 307	6 378	9 335	N / A	4 191	N / A	442 249

Note: Calculated using data per Q2 2015.

Description of the calculations

The effects have been assessed based on data primarily pertaining to the second quarter of 2015. The calculations pertain to the consolidated level. The effects described in this chapter comprise ten firms, eight of these shall comply with the Basel 1 floor; the four major banks, Landshypotek, Länsförsäkringar, SBAB and SEK.

The definition of own funds has changed in CRR and CRD 4 compared to the Basel Directives. Own funds, to be compared with the Basel 1 floor, shall be adjusted in accordance with Article 500(4) of CRR. The adjustment aims to neutralise the impact that the expected loss amount, calculated with the internal model for credit risk, has on the size of the own funds. In this memorandum, own funds are illustrated without the adjustment in accordance with Article 500(4) which indicates less comparability between the capital ratio and the Basel 1 floor.

The effects of the Basel 1 floor are accounted for below as well as in *Finansinspektionen's approach to the Basel 1 floor*.¹

The size of the various components of the capital requirement has been estimated as follows.

Capital requirement under Pillar 2, excluding risk weight floor and systemic risk. A standardised value has been used, which is 2 per cent of the riskweighted exposure amount in total own funds. The share to be covered by common equity Tier 1 capital is determined by the breakdown of type of capital according to Pillar 1 (including buffer requirements besides the countercyclical capital buffer) that applies to the major banks and other firms, respectively.

The firms' actual capital requirement under Pillar 2, excluding risk weight floor and systemic risk, may be higher or lower than the standardized value. As of the third quarter 2015 firm specific values will be published for three of the most important sources of risk; credit-related concentration risk, interest rate risk in the banking book and pension risk.

Risk weight floor of 25 per cent for Swedish mortgages. The increased risk-weighted exposure amount brought about by the risk weight floor has been multiplied by the relevant capital requirement.

Risk weight floor of 25 per cent for Norwegian mortgages. The increased risk-weighted exposure amount brought about by the risk weight floor has been multiplied by the relevant capital requirement according to the same methodology as for Swedish mortgages.

¹ Memorandum published on fi.se on 18 March 2014, FI ref. 13-13990.

Systemic risk in Pillar 2. 2 per cent of the total risk-weighted amount for the major banks. Covered in its entirety by common equity Tier 1 capital.

Systemic risk buffer. 3 per cent of the total risk-weighted amount for the major banks. Covered in its entirety by common equity Tier 1 capital.

Countercyclical capital buffer. The Swedish and Norwegian countercyclical buffer rate of 1 per cent separately has been used in the calculation. The firm-specific buffer value has been estimated on the basis of reported data according to the European common instructions for reporting (COREP). In order to calculate the firm-specific buffer value the relevant credit exposures in each country is multiplied with the countercyclical buffer rate of each country.

The Swedish countercyclical buffer is implemented as of 13th of September 2015. The increase in the Swedish and Norwegian countercyclical buffer rate, from 1 to 1.5 per cent, will be taken into account as they come into effect. The increased buffer rates are to be implemented during the third quarter of 2016.

Amongst foreign countercyclical buffer rate it is only the Norwegian rate that is taken into account. Currently, no member of the European union has as of yet implemented a countercyclical buffer rate other than zero percent.²

Capital conservation buffer. 2.5 per cent of the total risk-weighted exposure amount. Covered in its entirety by common equity Tier 1 capital.

Capital planning buffer. As a part of the specific own funds requirement the aim of the capital planning buffer is to cover the potential deterioration of the capital adequacy that may arise in severe but plausible financial stress. The capital planning buffer is calculated separately from the capital conservation buffer and can exceed as well as fall below the latter buffer which implies that the capital planning buffer can become an additional capital requirement . The capital planning buffer is not being considered in this memorandum.

Basel I-floor. According to Swedish law, the Basel I-floor represents a minimum capital requirement calculated in Swedish kronor. The capital requirement is 8 per cent of the total risk weighted assets calculated in accordance with the Basel I rules. The minimum own funds requirement is 80 per cent of the capital requirement calculated according to the Basel 1 rules.

² For an overview of the current countercyclical buffer rates, see ESRB's web-page: <https://www.esrb.europa.eu/mppa/html/index.en.html>